

Remarks by
Tony T. Brown, Director

Community Development Financial
Institutions Fund (CDFI)

To the

2nd Bi-Annual
National Inner-City
Economic Summit

Bonaventure Hotel,
Los Angeles, CA

Thursday, April 18, 2002

CDFI
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COMMUNITY
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Community Development Financial Institutions Fund (CDFI)
US Department of the Treasury**

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Introduction

Good afternoon and thank you for the invitation to address the National Inner City Economic Summit. John Bryant, you, the directors and employees of Operation HOPE are to be commended for the comprehensive manner in which you are addressing inner-city economic development.

What an excellent idea – to bring together 500 leaders in business, government and community-based organizations to focus on successful strategies for promoting economic empowerment in America's urban, inner city and underserved communities. We are not here to talk about the problems. We are here, instead, to find answers, to get results and to share and report on best practices.

It gives me great pleasure to be here representing the Department of the Treasury with the nation's Treasurer, Rosario Marin. Treasurer Marin, I have spent a major portion of my career writing checks as a former banker. Now I marvel to know that your signature is etched in our nation's currency.

I am also honored to be sharing this podium with Secretary Paige from the Department of Education. Secretary Paige has demonstrated great innovation and dedication throughout his years in education. We look forward to your remarks.

President Bush often reminds people that the great strength in America is not in our governments. The great strength in America is in the hearts and souls of citizens all around our country. The great strength in America is embodied in those who work, such as you, in community-based institutions across the country.

I am honored to be here today as your speaker and to update you on President Bush's agenda for America – all of America.

In preparing for my remarks, I took time to review the Economic Report from the first Economic Summit. And, I agree, that

access to capital continues to be one of the greatest challenges facing inner city renewal efforts.

I have spent 20 years in banking. Ten of these years have been in community development in the state of Florida. I know the importance of capital access. I empathize with minority entrepreneurs who have vision and expertise in a particular field and are willing to take risk but can't seem to overcome a financial institutions requirement for equity or collateral, including second or third potential sources for loan repayment.

My heart aches when I see Americans living in poverty, buildings boarded up and homes dilapidated. This is America. No one should feel despair or disenfranchised. America is still the land of opportunity.

Without a doubt, there is currently a tremendous need for investment of capital in low-income urban and rural communities.

This is why in 1994 Congress created the Community Development Financial Institutions Fund or CDFI Fund, as a bipartisan initiative. The CDFI Fund invests in community development lenders who in turn provide capital and services to underserved people and communities.

CDFIs are specialized financial institutions that work in market niches that have not been adequately served by traditional lenders. Donna Gambrell of the FDIC will speak after me and share her insights about regulatory compliance for banks and thrifts.

Our vision at the Fund is to have an America in which all people have access to credit, capital, and affordable financial services.

We are serious about this commitment and our desire to be one of your major collaborators in tapping the economic potential of our inner cities. Here's how we can help:

We pursue our mission three ways – first, we help create and expand community development financial institutions; second, we provide financial incentives to regulated banks and thrifts to increase their lending and services in target distressed areas; and lastly, we will be introducing the New Markets Tax Credit Program this Spring to help increase the flow of private capital in low income areas. Please allow me to explain each of these strategies in more detail.

Since 1996, investments in certified CDFIs have been the cornerstone of our program. The Fund has made over 1,200 awards for \$530 million to financial institutions dedicated to community development.

In California, the Fund has awarded just over \$53 million. In the Los Angeles area, we have made \$5.7 million in awards.

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The organizations we support are able to lend in ways that are more flexible or innovative than regulated financial institutions. We have certified 565 financial institutions as CDFIs across the country. Thirty-five of these organizations have been certified in California and eight of California's certified CDFIs are Los Angeles based. The organizations we certify at the Department of Treasury are engaged in a variety of activities:

46% engage in micro-enterprise or small business lending, and operate business loan funds

31% of the groups are involved in affordable housing or community facility financing

16% are community development credit unions

4% manage community development venture capital funds

3% are part of bank holding companies or multi-banks CDCs.

Our second strategy is to provide incentives for regulated banks and thrifts to invest in CDFIs and to increase their lending and financial services in distressed communities. We do this through the Bank Enterprise Award (BEA) Program that recognizes the key role played by traditional financial institutions in community development.

In the first six rounds of the BEA Program, the Fund awarded over \$182 million to 386 banks and thrifts. To date, banks and thrifts receiving awards have provided \$959 million in financial support or technical assistance directly to CDFIs, and \$2.5 billion to distressed communities in the form of direct loans, investments and services.

California-based institutions have received over \$28 million in BEA Program awards. Our records show that the banks and thrifts participating in the BEA program operate some of the nation's leading CRA programs, as nearly one-third of the roughly 390 financial institutions participating in the BEA Program have received outstanding ratings under the Community Reinvestment Act.

Our third strategy involves the use of tax credits to increase the flow of private capital in low-income areas. This opportunity was recognized in your first Economic Summit where participants stated that the inner city represented a tremendous market opportunity. We agree!

On December 21, 2000, the Community Renewal Tax Relief Act of 2000 was signed into law. This law created the New Markets Tax Credit Program, which will help to spur up to \$15 billion of private investment capital into distressed urban and rural communities across the country. By making an equity investment in an eligible "community development entity" (CDE), individual and corporate investors can receive a New Markets Tax Credit worth 39 percent of the amount invested over the seven-year life of the credit.

By offering a tax credit, the New Markets Program encourages private investment in underserved communities in an unprecedented manner. If investors embrace the program, it will be a significant source of new capital that will help to stimulate new industries and entrepreneurs, and to generate new jobs in low-income communities.

Let me put a face on the NMTC program for you. As stated earlier, it is a tax credit program designed to spur \$15 billion in investments in low-income communities. A remarkable 24,562 census tracts in the United States qualify for NMTCs. That's nearly 40 percent of all census tracts, representing 36 percent of the population, or nearly 91 million people.

In California, 34% of your state's 5,858 census tracts qualify as low income and meet our eligibility requirements for NMTCs. In the Los Angeles MSA, 37% of the census tracts qualify for the New Markets Tax Credit Program (607 tracts qualify out of 1,652).

The NMTC program is designed so that organizations like Operation HOPE can be empowered with the cash to make a difference. Here, let me explain how NMTC will work:

An organization may apply to the CDFI Fund to become certified as a CDE. To qualify as a CDE, the entity must have a mission of community development and demonstrate accountability to the low-income communities served;

The CDE applies for an allocation of NMTCs;

If the CDE is awarded an allocation of tax credits, it may offer them to its equity investors;

Investors can receive NMTCs worth 39% of the invested amount over the seven-year life of the credit. Investors may not redeem their investment in the CDE prior to the conclusion of the seven-year period;

The CDE must use substantially all of the proceeds from these investments to make Qualified Low-Income Community Investments (QLICs). QLICs include:

Loans and investments in support of commercial real estate development in low-income communities;

Loans and investments to businesses operating in low-income communities;

Loans and investments to other CDEs;

The purchase of loans made by other CDEs to businesses operating in low-income communities; and

The provision of counseling to businesses operating in low-



income communities.

We expect to allocate up to \$2.5 billion in such equity in calendar year 2002. The NMTC staff has been working diligently to finalize the NOAA (Notice of Allocation Availability) and the application process. We anticipate release to the public no later than May 31st.

We encourage you to check out our website on a regular basis for updates regarding the NMTC (www.cdfifund.gov).

We need the NMTC Program to be the impetus to increase the flow of private capital into low-income communities. Direct subsidies from the Federal government alone will not do it.

Let me speak for a moment to the bankers and corporations in the house.

We are asking the investment community to step up in a bold way. Our low-income communities are in need of your capital. Like many of you, I was anxious to ride the stock market wave of the “dot-coms” and the “tele-coms.” Now, we have an opportunity today to bring in a new era of opportunity: that of the low-com. These low-income communities are in desperate need of investments in capital and job opportunities.

In less than seven years time, when we look back, we hope to say that the NMTC Program put significant amounts of private sector capital to work in the areas where it was needed most. We know that you too share this vision.

The market opportunity in our nation’s inner cities is tremendous. I recall growing up in the projects of Cincinnati. A city that experienced racial disturbances last year similar to the reasons why people rioted in South Central LA 10 years ago (accused police of harassing blacks).

I learned community development from the best – my grandmother: a hard working lady who only sought the best for her family. There was no CRA. No special loan programs, just the desire to put a decent roof over the heads of her children and grandchildren. My grandmother found value in properties neglected. She would fix them up, live in them for a couple of years and then re-sell.

My grandmother had no goal to get out of the ghetto. She loved her community and knew that she could play a small role in cleaning it up and providing a safe and loving environment to raise her children.

As a teenager, I couldn’t wait to learn to drive because my grandmother and great aunt would have to take a bus to get to the nearest grocery store as the riots in the 60’s resulted in the closure of our community’s nearest grocery store. Many stores, major retail chains closed after the 60’s riots and never returned.

We would catch the bus to the grocery store and pay the bootleg cabby cash to bring us home. What's a bootleg cabby? In some areas they are called jitneys – individuals with cars transporting people to make a living. They will go where no cab or public transportation will go.

Yes, I learned to drive and through God's divinity, I grew up safely in the projects, moved from one low income area to another, became a senior vice president for one of the nation's largest banks, and finally, was named by the President of the United States to run the nation's community development fund. And now, by the grace of God, I am given the opportunity to help drive billions of dollars into our nation's underserved and distressed communities – Isn't God good?

We know that together, with all of you in this room, that we can make the CDFI Fund one of the nation's most successful Federal programs. Our proof will be in the lives of the people we serve and the communities we enrich.

Thank you for inviting me to speak. We look forward to working with you and improving the quality of life for our nation's low-income communities.

